

Message Text

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EB-11 EA-11 FRB-02 INR-10 IO-14 NSAE-00 RSC-01

OPIC-12 SP-03 TRSE-00 CIEP-02 LAB-06 SIL-01 SWF-02

OMB-01 INRE-00 SSO-00 NSCE-00 USIE-00 SS-20 NSC-07

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C O N F I D E N T I A L SECTION 01 OF 03 OECD PARIS 12696

TAGS: ENRG, OECD

SUBJECT: PROSPECTS OF OPEC'S QUITO MEETING RAISING CRUDE
OIL PRICES

1. SUMMARY: EXECUTIVES OF FIVE MAJOR OIL COMPANIES
EXPRESSED CONSIDERABLE CONCERN, IN DISCUSSIONS WITH
BENNSKY (DIRECTOR FSE) IN LONDON MAY 23-24, THAT
OPEC MEETING IN QUITO BEGINNING JUNE 15 WOULD RESULT
IN SUBSTANTIAL INCREASE IN PER BARREL PRICE CRUDE OIL.
THEY ANTICIPATE OPEC WILL USE GAMBIT INCREASING THEIR
REVENUE TAKE BY TAKING AWAY COMPANY "WINDFALL PROFITS"
(WHICH THEY SAY SIMPLY WILL NOT BE THERE IN SECOND HALF
STRESSED THEIR HOPE AT LEAST US AND UK GOVERNMENTS WILL
MAKE KNOWN THEIR VIEWS TO MAJOR OPEC PRODUCERS ON
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DETRIMENTAL EFFECTS OF FURTHER OIL PRICE INCREASE.

HMG OFFICIALS AGREED SUCH ACTION SHOULD BE TAKEN. THIS MESSAGE SETS FORTH PROSPECTIVE DECISIONS OF OPEC AT QUITO, SUGGESTS A PRIOR CONSUMER-PRODUCER EXCHANGE OF VIEWS AND PROPOSES A LINE OF ARGUMENT THAT CONSUMERS COULD TAKE. END SUMMARY

2. FOLLOWING IS SUMMATION DISCUSSIONS OF BENNSKY WITH EXECUTIVES BRITISH PETOLEUM, SHELL INTERNATIONAL, GULF, MOBIL AND ESSO AND BRITISH OFFICIALS FCO AND ENERGY MINISTRY IN LONDON MAY 23-24 CONCERNING PROSPECTIVE OPEC OIL PRICE DECISIONS IN QUITO JUNE 15 MEETING.

3. THE PROSPECTS (PARAS 3-7): THERE IS VIRTUALLY UNIVERSAL EXPECTATION THAT OPEC MEMBERS WILL RAISE THEIR "TAKE" (REVENUE), NOT BY INCREASING POSTED PRICE, BUT BY REVISING INCOME TAX RATES SO AS TO GAIN FOR THEMSELVES OIL COMPANIES' "WINDFALL PROFITS." TWO REASONS GIVEN FOR THIS APPROACH: (A) SAUDI ARABIA CONTINUES OPPOSE RAISING POSTED PRICES FURTHER AND (B) SINCE CONSUMING GOVERNMENTS THEMSELVES DEPLORING "WINDFALL PROFITS" AND TALKING OF TAX ACTIONS AIMED AT THESE PROFITS, THEN ANY RESULTING INCREASE IN CRUDE OIL PRICES CAN BE LAID AT DOORS OF COMPANIES.

4. MOST ANTICIPATE OPEC WILL MOVE INCOME TAX RATE UP FROM 55 PERCENT, COUPLED PERHAPS WITH SOME REDUCTION POSTED PRICE AND POSSIBLY WITH ANNOUNCEMENT THIS ADDITIONAL REVENUE (OR PART OF IT), THAT HAD GONE TO COMPANIES IN "EXCESS OR WINDFALL PROFITS", WILL BE USED TO ASSIST POORER LESS DEVELOPED COUNTRIES. BP AND GULF THOUGHT OPEC ACTIONS WOULD RESULT IN RAISING AVERAGE PRICE PER BARREL OF CRUDE BY ABOUT \$1.50. MOBIL OF OPINION OPEC MEETING WOULD END UP WITH COMPROMISE DECISION AND THUS PER BARREL INCREASE WOULD BE SOMEWHAT LESS THAN \$1.50. ONLY ONE SHELL EXECUTIVE FELT THAT OPEC WOULD BE STALEMATED ON BOTH POSTED AND "WINDFALL PROFITS" PRICES AND REACH NO DECISION. HE ARGUES THAT SAUDI ARABIA WILL FIND "WINDFALL PROFIT" GAMBIT TOO TRANSPARENT; OTHERS THOUGHT SAUDI ARABIA WOULD FIND IT ACCEPTABLE TRADE-OFF FOR HOLDING POSTED PRICE DOWN. CONFIDENTIAL

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5. COMPANY EXECUTIVES SAY RISE IN PRICES TO CONSUMERS INEVITABLE SINCE THERE WILL BE NO "WINDFALL PROFITS" IN MONTHS AHEAD. THIRD QUARTER PROFITS EXPECTED FALL PRECIPITOUSLY AS INVENTORIES OF LOWER COST PRE-DECEMBER CRUDE ARE SOLD AND PROPORTION OF BUY-BACK TO EQUITY OIL RISES WITH INCREASING PRODUCING GOVERNMENT OWNERSHIP OF PRODUCTION. ONE EXECUTIVE PROJECTED A PLUNGE FROM

CURRENT 75 CENTS TO ONE DOLLAR PER BARREL PROFIT TO AS
LOW AS 20 CENTS.

6. ONLY ESSO MENTIONED PRODUCTION LEVELS AS KEY AREA OF
DISCUSSION AT QUITO MEETING. POINT MADE BY ESSO WAS
THAT IN THE SOFTER MARKET OPEC COUNTRIES WOULD FIND IT
VERY DIFFICULT SUSTAIN CRUDE PRICE INCREASE WITHOUT
REDUCING SUPPLIES. IT WAS NOTED IN SUPPORT THAT,
LEAVING SAUDI ARABIA TO ONE SIDE, OTHERS RECENTLY HAVE
ACTUALLY REDUCED AND/OR SPOKE OF REDUCING OUTPUT
(IRAN, LIBYA AND VENEZUELA MENTIONED SPECIFICALLY).

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7. THERE WAS MUCH DISCUSSION, HOWEVER, OF SHORT-TERM WORLD OIL MARKET CONDITION AND ITS MEANING. COMPANIES SAID THAT, WHILE THERE MORE THAN SUFFICIENT OIL ON MARKET FOR THEIR CONSUMPTION DEMANDS, EXCESS CRUDE WAS BEING LIFTED AND GOING INTO STORAGE. BUYERS ARE ANTICIPATING HIGHER PRICES FOLLOWING QUITO MEETING. FEW OF COMPANIES ALREADY SEEING BEGINNINGS OVERHANG OIL AS TANKAGE FILLS UP AND HAVE SLOWED DOWN THEIR TANKERS; NONE SAID THEY WERE YET UNDERLIFTING. WHEN SITUATION DOES REACH THIS STAGE, HOWEVER, ALL COMPANY EXECUTIVES EXPECT OPEC TO HAVE ENOUGH COHESION TO REDUCE PRODUCTION

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SUFFICIENTLY TO MAINTAIN CRUDE PRICES. THEY ARGUE THAT IN SHORT-RUN THERE IS NO FINANCIAL COMPULSION FOR PRODUCER GOVERNMENTS TO DO OTHERWISE. AS FOR SAUDI ARABIA, THEY ADMIT IT IS KEY ELEMENT TO OPEC PRODUCTION CONTROL, BUT NOTE SAUDIS WILL BE EXTREMELY CONCERNED AND RELUCTANT, AND THEY THINK WILL NOT, TAKE OUTPUT DECISIONS THAT CLEARLY UNDERMINE THE PURPOSES OF ITS FELLOW OPEC COLLEAGUES, ESPECIALLY THOSE OF OAPEC. HOWEVER, IT WAS POINTED OUT THAT YAMANI APPARENTLY STILL WANTS HAVE SIZEABLE CRUDE AUCTION THIS SUMMER (500,000 B/D MENTIONED) TO TEST MARKET, AS DEMONSTRATION HIS THESIS TO OPEC. INDICATIONS ARE A JUNE 4 MEETING IN GENEVA BETWEEN YAMANI AND ARAMCO PARTNERS WILL BE DEVOTED TO FORMER'S DESIRE HAVE MORE CRUDE FOR DIRECT SALE THAN PARTICIPATION AGREEMENT NOW PROVIDES HIM.

8. WHAT TO DO: ALL COMPANY EXECUTIVES STRESSED THEIR HOPE CONSUMER GOVERNMENTS, ESPECIALLY US AND UK, WOULD WEIGH-IN WITH AT LEAST MOST IMPORTANT OPEC GOVERNMENTS PRIOR TO JUNE 15. HMG OFFICIALS ALSO THOUGHT CONSUMERS VIEWS SHOULD BE MADE KNOWN EVEN THOUGH IN SOME CASES IT MAY BE USUAL "MONOLOGUES IN PARALLEL" AND IN OTHERS ONLY ELICIT SYMPATHY FOLLOWED BY RECITAL OF PRESSURES AND CONSTRAINTS ON THE PARTICULAR PRODUCER GOVERNMENT. BRITISH (JOCK TAYLOR) INDICATED THEY PLANNED CONTACT DEPARTMENT ON THIS THROUGH BRITISH EMBASSY.

9. LINE OF ARGUMENT (PARAS 10-13) BY CONSUMER GOVERNMENTS SHOULD CONTAIN FOLLOWING ELEMENTS:

10. CURRENT OIL PRICES ALREADY HAVING VERY DISRUPTIVE EFFECTS ON ECONOMIES OF WORLD--HERE THERE SHOULD BE SPECIFIC EXAMPLES OF WHAT IS HAPPENING TO BALANCES OF PAYMENTS, INDUSTRIAL AND AGRICULTURAL PRODUCTION AND EMPLOYMENT IN DEVELOPED AND LESS DEVELOPED COUNTRIES,

WITH MORE STRESS ON FORMER. CLEARLY INCREASING THESE PRICES WILL MAKE THESE SITUATIONS WORSE AND WILL ADD TO ALREADY DAMAGING INFLATION RATES THAT ARE CONCERN OF PRODUCERS ALSO. KEY CONCLUSION TO BE DRAWN IS THAT RECESSION OR STAGFLATION WHICH WORLD NOW FACING CANNOT BUT BE DETRIMENTAL TO INTERESTS OPEC GOVERNMENTS IN
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TERMS MAINTENANCE VALUE THEIR FINANCIAL ASSETS OR MAXIMIZATION THESE ASSETS USE IN MODERNIZATION, INDUSTRIALIZATION AND FUTURE THEIR COUNTRIES AND THEIR MAJOR RESOURCE (OIL).

11. PRODUCERS' "WINDFALL PROFITS" JUSTIFICATION
(PARA 3 ABOVE) DIFFICULT FOR CONSUMERS COUNTER, SINCE SO MANY OF THEM SEEM OUT TO CAPTURE THESE PROFITS FROM COMPANIES ALSO, BUT TWO POINTS CAN BE MADE: (A) IF PRODUCERS TAKE THESE PROFITS THEN ALREADY WEAKENED BALANCES OF PAYMENTS OF CONSUMERS WILL BE DAMAGED EVEN FURTHER WITH FAR-REACHING NEGATIVE EFFECTS ON THE WORLD ECONOMY, WHILE IF CONSUMERS DID TAKE THEM THERE WOULD ONLY BE AN INTERNAL TRANSFER WITH NO FOREIGN EXCHANGE EFFECTS AND (B) IN ANY EVENT, THERE ARE REASONS TO EXPECT AS RAPID A FALL-OFF DURING THE LATTER HALF OF 1974 IN COMPANY PROFITS AS THERE WAS A RISE IN THE FIRST HALF. COMPANY EXECUTIVES SOUND CONVINCING RE POINT (B), BUT WE WOULD WANT TO MAKE SURE OF OUR ARGUMENTS HERE.

12. LOOKING AT THE MEDIUM AND LONGER-RUN, IT DOES NOT APPEAR IN CONSUMERS' OR PRODUCERS' INTERESTS TO FORCE, THROUGH ARTIFICIALLY SUSTAINED HIGHER AND HIGHER OIL PRICES, DECISIONS IN THE DEVELOPMENT OF ENERGY SUPPLIES BASED ON EXPECTATION OF VERY HIGH COST - ARTIFICIALLY SCARCE OIL. ONCE THESE NEW SUPPLY SYSTEMS ARE LOCKED IN, AND DECISIONS WILL BE FORCED IN THE MONTHS IMMEDIATELY AHEAD BY THE EVER HIGHER PRICES, THEN THE SHAPE OF THE NEXT TWENTY YEARS OR SO WILL BE SET AND NOT ON

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TERMS THAT WOULD HAVE BEEN BEST FOR THE PRODUCERS.
HERE THE CONSUMER ARGUMENT SHOULD GET INTO THE INTER-
DEPENDENCE THEME AND NEED FOR PROSPERITY IN ORDER TO
ALLOW AND MAXIMIZE THE TECHNOLOGY, INDUSTRIAL,
MARKETING AND FINANCIAL TRANSFERS THAT WILL BE REQUIRED
FROM CONSUMERS TO MEET THEIR END OF WHAT SHOULD BE A
MUTUAL ENDEAVOR WITH PRODUCERS.

13. FINALLY, TO COUNTER OPECS UNILATERAL APPROACH,
CONSUMERS SHOULD STRESS THEIR DESIRE FOR AND THE
SENSIBleness OF PRODUCER-CONSUMER DISCUSSION OF
THEIR ENERGY RELATIONSHIPS, IN WHICH CRUDE OIL PRICING
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CAN BE FITTED IN AS A HARMONIOUS AND INTEGRAL PART.
SINCE IT APPEARS THAT NOW IS THE TIME TO BE MORE
SPECIFIC, CONSUMERS SHOULD TAKE YAMANI UP ON HIS UNGA
SPECIAL SESSION PROPOSAL FOR A RESTRICTED MEETING OF

CONSUMERS AND PRODUCERS OF OIL.

14. WHICH CONSUMERS AND PRODUCERS: CERTAINLY US AND UK BUT CONSIDERATION SHOULD BE GIVEN TO PARTICIPATION BY GERMANY, ITALY AND JAPAN AND PERHAPS OTHERS OF THE ECG. WE SHOULD AT LEAST INFORM OTHER DEVELOPED AND LESS DEVELOPED GOVERNMENTS OF WHAT WE ARE DOING. AS FOR THE PRODUCER GOVERNMENTS TO BE CONTACTED, THE THREE MOST IMPORTANT ARE SAUDI ARABIA, IRAN AND ALGERIA, BUT IT COULD BE USEFUL, AT LEAST FROM A PSYCHOLOGICAL STAND-POINT, TO TALK WITH KUWAIT, VENEZUELA, ABU DHABI, NIGERIA AND INDONESIA. THE MESSAGES SHOULD BE AT LEAST FROM CONSUMERS' MINISTERIAL LEVEL FOR DELIVERY BY AMBASSADORS TO PRODUCERS' MINISTERIAL LEVEL.

15. DEPARTMENT REQUESTED REPEAT THIS MESSAGE TO OUR EMBASSIES IN OTHER COUNTRIES MENTIONED PARA 14 ABOVE, IF THERE IS NO OBJECTION, FOR THEIR COMMENT.

16. INFO ADDRESSEES REQUESTED COMMENT DIRECTLY TO DEPARTMENT ON QUITO PROSPECTS, WHAT CONSUMER GOVERNMENTS SHOULD DO AND HOW AND WITH WHOM.
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Message Attributes

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